FAIRFAX
COUNTY

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V I R G I N I A

February 23, 2004

Honorable Board of Supervisors
County of Fairfax
Fairfax, Virginia

Chairman, Ladies and Gentlemen:

I am pleased to transmit to the Board of Supervisors and the citizens of Fairfax County my budget proposal for Fiscal Year 2005 which totals $4,651,562,710 including General Fund Disbursements of $2,734,445,214, a 4.47 percent increase over the *FY 2004 Revised Budget Plan*. The FY 2005 Advertised Budget Plan represents a balanced budget that is in conformance with the Board's Budget Guidelines, which limit County and School expenditure increases to the projected growth in available revenues.

FY 2005 presents both a challenge and an opportunity to look at the County's budget and services beyond just the next year, but from a broader, multi-year perspective. For the past three years, we have faced the dilemma of a revenue base where growth has come entirely from residential real estate taxes. We have had to carefully balance the need for taxpayer relief against County and Schools' requirements and services, and we have been forced to review program area against program area. In doing so, we have directed available County resources toward priorities such as education and public safety, while making reductions to central agencies and trimming administrative/managerial functions.

To a large extent, we have been successful, reducing the tax rate by seven cents since FY 2002 from $1.23 to $1.16 per $100 of assessed value. The reduction in the tax rate saved County taxpayers on average $225 annually by FY 2004. However, in order to achieve this reduction within the constraints of our revenue picture, we have had to cut $101 million cumulatively from the County budget over the past three fiscal years. This action afforded taxpayers some relief and provided additional support to Fairfax County Public Schools (FCPS), particularly in the face of funding shortfalls at the state level.

As the Board is aware, these cuts have not been without consequence. Reductions in administrative functions and direct service programs have had an impact on customer service, such as longer wait times. Program reductions and eliminations have resulted in the loss of valuable services for some residents. In making the annual reductions necessary to bring the budget into balance, we have been forced to defer investment in some infrastructure, which has the potential of increasing costs down the road. Residents also feel the impact of these actions through increased fees and fares intended to recover more of the cost of services. Collectively these actions add up, and I believe we have reached the point where trimming around the edges is no longer effective or desirable.

It is understandable why many people want to live and do business in Fairfax County. We enjoy a high quality of life with attractive neighborhoods, excellent schools and safe streets, wide-ranging recreational and cultural opportunities, outstanding opportunities for jobs and business growth, and a government that is responsive to residents' needs. However, this quality of life and the services that support it have a cost. Our challenge over the coming years is to weigh these costs against County resources, to balance these services against the ability of our residents to fund them, and to gauge how we can address these needs in the future. We must find a reasonable equilibrium. We will never be able to please everyone, but we must at least determine the right balance between our needs and our resources.

By several accounts, the character of the FY 2005 budget year is similar to those of recent years. For the fourth consecutive year, we are seeing double-digit growth in residential real estate assessments. This trend continues to result from the booming housing market that is fueled by historically low mortgage rates, the constrained supply of housing and improvement in the local economy. Similar trends are seen in our neighboring jurisdictions. Like you, I am extremely concerned about the burden this places on homeowners. Particularly since the non-residential sector, while registering modest gains, continues to decline in its proportion of the real estate base. The Commercial/Industrial percentage stands at 18.20 percent for FY 2005, which is the lowest percentage in more than 20 years.

The FY 2005 budget I am presenting relies on projected revenue growth of $168.9 million or 6.57 percent. This entire increase in revenues is from rising real estate assessments; all other categories combined will actually decrease approximately $1.0 million in FY 2005. This 6.57 percent growth in revenue in FY 2005 will probably be the next 10 years' highest, particularly in the context of the reduced base we have experienced in recent years with revenue categories suppressed due to subdued economic conditions. Dr. Stephen Fuller, Director of the Center for Regional Analysis, believes that 2004 will be the strongest year of economic growth in this decade. Projections for the next several years trend toward an annual growth rate in County revenues of 5.5 to 6.0 percent.

I have sought to minimize spending increases in the FY 2005 budget to the extent possible, limiting General Fund direct expenditures to an increase of 2.5 percent over FY 2004 for baseline funding adjustments and requirements associated with new facilities planned to come on-line in FY 2005. The only expanded initiative is the Public Safety Operations Center where the volume and complexity of calls to our 911 center have nearly surpassed current staff capacity to respond within acceptable timeframes, requiring us to take action. In accordance with the Board's budget guidelines, the Fairfax County Public Schools operating transfer increase is equal to the projected revenue growth of 6.57 percent, an increase of $81.5 million in the Schools operating transfer. Total disbursements are proposed at $2.734 billion, an increase of 4.47 percent over FY 2004.

This proposed budget represents a modest fiscal plan. It funds only the "basics of government" - the level of service we currently provide, including the cost of doing business, mandates, contractual obligations and other existing commitments. Among these basic costs are compensation and benefits, which are significantly impacted by market conditions. A good example is the rising cost of health insurance. Nationally, health spending rose from 13.3 percent of the Gross Domestic Product in 2000 to 14.9 percent in 2002. From 1992 to 1999, the share was stable. The County health care experience has closely mirrored the national trend. Medical and prescription claims costs for the County have more than doubled since FY 1999. Premium increases of 25 percent for the County's self insured health insurance are anticipated for FY 2005, requiring both employees and the County to increase their contributions.

The FY 2005 budget does not fund new programs or initiatives, worthy as some may be. It cannot support, without significant adjustment, additional real estate tax relief, more funding for Schools or other priorities identified by the Board, community and/or County agencies. During the development of this budget, I have reviewed staff and resource shortages with County agencies resulting from greater demand for County services related to human services, education, public safety and homeland security.

Given the constraints of this budget and the cost to fund baseline programs, there is no funding to address these priorities without changing our core County services. I believe that after three years of significant cost-cutting, including the elimination of programs and services, we are now at a critical juncture. We must now make even more difficult choices about our direction for the future.

I anticipate considerable dialogue with the Board and the public regarding actions to take in order to ensure a budget that addresses our priorities, while not unduly burdening taxpayers. In conjunction with the baseline budget I am proposing, I am also providing a list of options for potential budget reductions should the Board wish to take action to reduce the tax rate further or undertake other budget initiatives. Many of these options will have short-term savings but longer term consequences as we make changes to our core services. I believe this conversation is difficult but necessary. These choices will include further reductions to services, the impact of which will directly affect County residents.

During discussions on the FY 2005 budget, I also plan to provide updates to the revenue forecast. The additional time will provide an opportunity to evaluate more recent collections data as well as a revised economic forecast to assess the possibility of additional revenue in FY 2005. If the economic recovery and its impact on various key County revenue categories is stronger than projected, this additional revenue may help mitigate the extent of cuts required. I intend to update the Board with this revenue information prior to action on the budget in April. The FY 2005 proposed budget will also serve as a catalyst to assist both County and School staff in strategic planning, as well as in resource identification and establishment of service priorities, both for FY 2005 and the future.

Strategic Linkages

Over the past two years, I have directed agencies to prepare strategic plans that identify their mission, vision and values, as well as address the environment in which they operate in order to identify goals and objectives that will guide their actions for the future and identify necessary resources. Building on Fairfax County's already established accountability model, we will also ensure that performance toward achieving these strategic plans is monitored, managed and reported.

COUNTY CORE PURPOSE

To protect and enrich the quality of life for the people, neighborhoods, and diverse communities of Fairfax County by:

- Maintaining Safe and Caring Communities
- Building Livable Spaces
- Practicing Environmental Stewardship
- Connecting People and Places
- Creating a Culture of Engagement
- Maintaining Healthy Economies
- Corporate Stewardship

In order to ensure consistency through the County, we first undertook an extensive effort to identify the County's Core Purpose and Vision Elements (see adjacent box). All agency strategic plans must link to this overarching framework. This was an internally driven initiative that represents the collective visioning of County staff. Now that we have presented it formally in the annual budget document, I anticipate productive discussion with you, as well as the public.

Concurrent with that process, we also engineered a major budget process redesign in order to incorporate strategic planning processes and linkages in the annual budget. This document represents countless hours of staff effort to redesign the budget to more clearly communicate linkages based on County priorities, track and communicate program performance, and develop measures that identify countywide progress on achieving the County's Core Purpose and Vision Elements. While we are very proud of these efforts to date, we recognize that they reflect the first step of what will be an evolving process to further strengthen the ties between strategic planning, resource allocation and performance measurement.

THE ECONOMY

The National Economy

Economic conditions at the national level have a ripple effect on the local economy. The National Bureau of Economic Research (NBER) first declared the 2001 recession "officially over" in July 2003, then later stated that it actually ended in November 2001 after only an eight-month period of true recessionary conditions. The confusion was due to the fact that the recovery has been so anemic that many consumers and businesses did not appreciably feel the improvement. However, the U.S. economy grew at its fastest rate in nearly 20 years in the third quarter of 2003, boosted by robust consumer spending that carried into the closing months of 2003 according to the U.S. Commerce Department. In the three months from July through September, Gross Domestic Product (GDP) advanced at an 8.2 percent annual rate, more than double the 3.1 percent pace posted in the second quarter. It then cooled to 4.0 percent in the fourth quarter, which translated to an annual rate of 3.1 percent, which still represents healthy growth. Many economists predict that business activity will post its best growth in four years in 2004, with expectations that GDP will gain as much as 4.5 percent.

After peaking at 6.4 percent in June 2003, the national unemployment rate fell to 5.7 percent in January 2004. Lower unemployment is forecasted for 2004; however, it is not expected to drop much below the 2003 annual average of 6 percent nationally. Concern about slow job growth and historically low inflation has kept the Federal Reserve from boosting short-term interest rates. It is expected that they will not take action on short-term rates until mid-2004. Long-term rates will likely move up as well due to the growing budget deficit, which is projected to exceed $500 billion. Economists attribute the rising deficit to the tax cuts, occupation and rebuilding of Iraq and Afghanistan, and homeland security requirements which continue to draw resources from other domestic issues.

Modest inflation is expected next year, in line with the Consumer Price Index (CPI) growth of 1.9 percent in 2003. However, there will be exceptions in certain sectors as health care, energy, education, household repairs and accounting services continue to rise faster than the overall CPI.

The State Economy

Virginia's economy continues to improve. In December 2003, the unemployment rate dropped another 0.1 percentage point to 3.3 percent. This was the lowest monthly figure in Virginia in 31 months since a 3.2 percent level in May 2001. Northern Virginia had the lowest unemployment rate in the State at 2.0 percent in December. According to the Chief Economist of the Virginia Employment Commission, "... Northern Virginia appears poised to resume its 1980s and 1990s job growth leadership."

Despite this moderate growth in the economy, Governor Warner and the General Assembly have faced the difficult task of closing a $6.0 billion deficit over the past biennium. This entailed eliminating more than 50 agencies, boards and commissions; abolishing approximately 5,000 positions, cutting every agency except public education by an average of 20 percent; and producing significant savings through government-wide efficiency plans. Even with assumptions of economic growth and no new programs, Virginia still faces a $1.2 billion shortfall in the next two-year budget. At the same time, the costs for many core services including education, Medicaid and the adult prison system are expected to rise, some significantly over the next decade. One-time budget fixes as have been done in the past will not correct this long-term structural deficit.

To provide a long-term solution, the Governor has proposed a restructuring of the tax system, which is promoted as a plan that will make the tax system fairer, meet Virginia's Constitutional commitment to provide education funding and protect the Commonwealth's fiscal integrity. As I noted to the Board in early January, the Governor's proposed budget is a good first step in stabilizing the state's fiscal structure. It contains a strengthened commitment to K-12 education funding, replenishing the Rainy Day Fund to help preserve the Commonwealth's AAA bond rating, and begins to address the multi-year underfunding of a number of locally provided services. The proposal, which must be adopted by the General Assembly, also includes a provision to allow local governments additional revenue options such as increasing cigarette taxes to help alleviate the burden on residential taxpayers. It should be noted that my budget proposal does not assume higher revenue from these potential options, pending action by the General Assembly.

The Local Economy

We continue to see gains in the local economy. The Fairfax County Coincident Index, which represents the current state of the County's economy has been positive for the past four months in a row and for the first time in ten months was positive on a monthly over-the-year basis. The local economy's performance is stronger than its average performance over the past year. Despite a slight drop in total employment after nine monthly gains and a slight decline in sales tax revenue, consumer confidence gained for a third month and transient occupancy tax collections registered a strong increase, showing a positive trend for three of the past four months.

Fairfax County's economic expansion gained further momentum in November even though some indicators were slightly negative. The positive trend in the economy's leading indicators over the past six months suggests that the expansion is spreading across the breadth of the economy. This is a sign of growing strength. Consumer spending had been the one major segment that lagged over the past two years; however, with confidence building, consumers are increasing their spending for automobiles and retail goods, while the housing sector, which has been robust throughout the slowdown, continues to register strong growth.

After two years of fits and starts, it is encouraging to see the local economy gaining traction. It is anticipated that job growth will increase slowly over the coming year, peaking in 2005, while gains in consumer spending and business investment will fuel broad-based growth across the County's lagging sectors. The key variable in the County's economic performance will be federal spending, especially procurement for technology-related services. Growth in this area is expected next year that will generate the new jobs needed to absorb the County's surplus office space.

THE IMPACT OF THE ECONOMY ON THE COUNTY BUDGET

As the Board is aware, economic factors as well as intergovernmental relationships have a considerable impact on the County's General Fund revenues, both in FY 2004 and FY 2005.

Status of the FY 2004 Budget

Staff has been closely reviewing FY 2004 revenue receipts to date and has updated projections for the remainder of the fiscal year. At this time, we anticipate FY 2004 revenues to be somewhat higher than estimated in the *FY 2004 Revised Budget Plan*. This increase is reflected in the schedules and summaries included in this budget volume.

At this time, FY 2004 revenue estimates assume a net increase of $12.46 million over the Revised Budget Plan, an increase of 0.5 percent. The majority of the increase is due to revenue categories that continue to react positively to improvement in the local and national economies. Recordation Tax/Deed of Conveyance collections and Clerk's Fees are projected to increase $14.2 million over the estimate based on the higher number of refinancings than previously anticipated due to continued low interest rates. The FY 2004 budget had assumed that collections would begin to taper off as the pool of refinancing opportunities diminished and interest rates began to edge upward. However, revenue in this category has continued to increase. The revised estimate assumes that FY 2004 revenue will reach the FY 2003 level of receipts.

Sales tax and BPOL tax receipts also show strong collections in FY 2004 to date and as such, these categories have been adjusted to show a 3.0 percent and 2.5 percent growth rate, respectively, for a total increase of $6.9 million. Through November 2003, sales tax collections are up nearly 12 percent; however, holiday sales data will be crucial to the overall fiscal year collections in this category. In addition, based on increased supplemental assessments as a result of ongoing construction and final Public Service Corporation (PSC) assessments that are completed by the state, an additional $2.8 million is anticipated from current real estate taxes in FY 2004.

Lastly, investment interest is increased $1.7 million based on higher than projected portfolio size and the portion of the total investment portfolio associated with the General Fund. Due to continued low interest rates, the actual investment yield is trending lower than forecasted.

Offsetting these increases is a reduction of $8.8 million in the current personal property tax revenue estimate. This reduction is due primarily to a reduction in business levy based on current billings and reflects business investment through CY 2002. In addition, revenue from the County's new mobile telecommunications tax is anticipated to be down approximately $4.0 million based on implementation issues associated with the numerous companies involved in collecting the tax as well as the actual number of accounts and usage. The net impact of these revised revenue estimates and the General Fund balance as of the *FY 2003 Carryover Review* is a total balance of $22.4 million.

I will be recommending a number of essential expenditure adjustments as part of the *FY 2004 Third Quarter Review*. The largest adjustment requires $18.7 million to complete the financing necessary for the construction of the County's Public Safety Operations Center (PSOC), which will house the Public Safety Communications Center (PSCC) and the Emergency Operations Center (EOC). This facility, planned for the Camp 30 site, will ensure adequate space, technology, security and communications to manage the volume of 911 emergency calls handled by the PSCC. There has been an 80 percent increase in calls handled by the Center since it opened in 1985 and the operations floor cannot support additional equipment to expand call-taking or dispatching capacity required to efficiently manage the increase in call volume. It will also provide for a new EOC. The County's current EOC is inadequate in terms of space, equipment and technology to support representatives from more than 30 County and state/regional agencies during an emergency operation. In addition, the EOC lacks system redundancy for electricity and telephone service. This equipment is needed to ensure that essential utilities will continue to operate during and following an emergency.

To date, a total of $39,234,908 has been appropriated to the PSOC project as a result of a previously approved bond referendum and strategic decisions by the Board to earmark available funds for this vital project. This total includes $29 million in bond funds approved by voters during the Fall 2002 Referendum and $250,000 in General Fund monies for master planning and site evaluation. In addition, $9,984,908 in General Fund monies was included as part of the *FY 2003 Carryover Review*. The recommended Third Quarter adjustment of $18.7 million will provide the funds needed to construct the facility. It is essential that these funds be made available at Third Quarter so that the project can proceed toward a scheduled opening date of FY 2007. Although the adjustment of $18.7 million will fund the PSOC through construction, additional funds will be necessary for the facility's information technology and equipment requirements.

Furthermore, I anticipate other requirements at Third Quarter. We are assessing the cost of our response and recovery work as a result of Hurricane Isabel, and a number of County agencies may require supplemental funding to offset the cost of this response. Additional funding will also be required to stabilize our health insurance and self insurance funds. Details of these adjustments will be included in the *FY 2004 Third Quarter Review* that will be provided in March for the Board's consideration.

FY 2005 Revenues

For FY 2005, some improvement in several revenue categories is anticipated as a result of the improving economy. However, others are decreasing based on various factors. The net result is that with the exception of Real Estate Taxes, we are not seeing any other real growth in revenue. FY 2005 General Fund revenues are projected to be $2,740,650,049, an increase of $168,882,135 or 6.57 percent over the *FY 2004 Revised Budget Plan*. This level of revenue growth in FY 2005 is due entirely to an 11.36 percent increase in Real Estate Tax revenue. All other categories reflect a net decrease of approximately $1.0 million from FY 2004. Of particular concern, revenue from real estate taxes will make up 60.5 percent of the total revenue base, up from 58 percent in FY 2004. In FY 2000, this figure was approximately 50 percent.

This increase reflects the strength of the housing market in the County and throughout the Northern Virginia area. As a result of sustained increases in both sales volume and sales price, the majority of residential properties in the County will receive valuation increases. All types of residential property experienced increases in value for FY 2005. While townhouse and condominium property values experienced significant increases due to equalization, changes in the assessed value of single family homes have had the most impact on the total residential base because they represent nearly 74 percent of the total. In FY 2005, every 0.1 percentage point change in the collection rate on the locally assessed Real Estate Tax levy yields a revenue change of $1.7 million, while every penny on the tax rate yields $14.5 million in revenue.

The FY 2005 Real Estate estimate is based on a 12.04 percent increase in the FY 2005 valuation of real property, as compared to the FY 2004 Real Estate Land Book. In addition, the <u>FY 2005 Advertised Budget Plan</u> includes an increase in the maximum level of assets allowed for Real Estate Tax relief eligibility from $190,000 to the State maximum of $240,000 as directed by the Board of Supervisors. This change in the Tax Relief Program is anticipated to reduce revenue by approximately $3.9 million in FY 2005.

I continue to be extremely concerned about the decline in the Commercial/Industrial percentage of the County's Real Estate Tax base. For FY 2005, it is 18.20 percent, a drop of 0.94 percentage points from the FY 2004 level of 19.14 percent. FY 2005 marks the fourth consecutive decline in the Commercial/Industrial percentage and is due to the larger increase experienced in the residential portion of the Real Estate Tax base.

Among the other major revenue categories, the picture is mixed. We are finally seeing a return to healthy Sales Tax revenue growth. In FY 2002, Sales Tax receipts declined 5.9 percent from the level achieved in FY 2001. This decrease was only the second time in 30 years that Sales Tax receipts had fallen from their previous year's level. In FY 2003, Sales Tax receipts rose just 1.0 percent above the level achieved in FY 2002. Yet Sales Tax receipts through January, representing retail purchases from June through November (FY 2004), are up a robust 11.7 percent over the same period of FY 2003. Retail sales during, and immediately after the holidays will have a significant impact on the overall growth rate of Sales Tax receipts. We will not know the December figure until February 2004. The FY 2004 Sales Tax receipt estimate will also be reviewed during the *FY 2004 Third Quarter Review* for possible adjustment.

Interest on Investments is another revenue category with extreme variation over the past few years. The County's investment income has been severely affected by interest rate reductions made by the Federal Reserve. In order to combat growing weakness in the economy, the Fed reduced interest rates 13 times between 2001 and 2004. In FY 2003, the annual average yield on the County's portfolio was 1.49 percent and interest earned on investments was $17.8 million. Total revenue in this category dropped from $56.3 million in FY 2001 to $15.1 million in FY 2004, a level that is not expected to increase appreciably for FY 2005.

A category that has actually benefited from low mortgage interest rates is Recordation/Deed of Conveyance Taxes. Revenue in this category more than doubled from $13 million in FY 2000 to $27 million in FY 2004 as a result of tremendous activity associated with home sales and refinancings. During the first six months of FY 2004, Recordation revenues increased 21.2 percent and Deed of Conveyance revenues rose 32.2 percent over the same period in FY 2003. Receipts in these categories have grown due to the continued strong demand relative to the housing supply as well as rising median sales prices. Increased mortgage refinancing due to low mortgage rates has also boosted Recordation collections. As a result of higher than expected collections, the FY 2004 estimate for Recordation and Deed of Conveyance Taxes was increased $10.7 million during the fall 2003 revenue review. The category was not increased above the FY 2003 Actual level, however, because recordation receipts began coming down in November and December compared to the same months in FY 2003, despite strong growth in the first four months of FY 2004. This trend is anticipated to continue in FY 2005 as interest rates start climbing upward and the available pool of refinancing opportunities dries up.

General Assembly action on the Governor's proposed budget and tax restructuring plan will also have an impact on the County budget. While my proposed budget does not anticipate additional revenue as a result of Governor Warner's plan, should the General Assembly choose not to supplement its budget with additional revenue, it will be necessary for them to make draconian cuts in state programs to address a projected $1.2 billion shortfall. Aid to local governments and education will most certainly be affected. We will monitor developments during the General Assembly session and provide any necessary changes to the Board as part of the FY 2005 Add-On Process.

Overview of FY 2005 Budget

Details of the FY 2005 Advertised Budget Plan are included in this Overview volume as well as Volumes 1 and 2. The following pages include a Summary General Fund Statement and two pie charts that show the sources of revenue for the General Fund, as well as the distribution of disbursements. They are followed by a section of budget highlights.

Summary General Fund Statement
(in millions of dollars)

	FY 2004 Revised Budget Plan	FY 2005 Advertised Budget Plan	Increase (Decrease) Over Revised	Percent Inc/(Dec) Over Revised
Beginning Balance[1]	**$118.89**	**$52.35**	**($66.55)**	**-55.97%**
Revenue[2]	$2,571.77	$2,740.65	$168.88	6.57%
Transfers In	$1.40	$1.67	$0.27	19.36%
Total Available	**$2,692.06**	**$2,794.66**	**$102.60**	**3.81%**
Direct Expenditures	$979.67	$1,004.21	$24.54	2.50%
Transfers Out				
School Transfer[3]	$1,240.85	$1,322.37	$81.52	6.57%
School Debt Service	120.90	126.53	5.63	4.66%
Subtotal Schools	*$1,361.75*	*$1,448.90*	*$87.16*	*6.40%*
Metro	$12.27	$18.14	$5.87	47.85%
Community Services Board	80.60	82.89	2.29	2.85%
Capital Paydown	18.86	10.49	(8.37)	-44.40%
Information Technology	9.45	11.63	2.18	23.10%
County Debt Service	98.45	100.02	1.57	1.59%
Other Transfers	56.29	58.16	1.87	3.32%
Subtotal County	*$275.92*	*$281.33*	*$5.41*	*1.96%*
Total Transfers Out	$1,637.67	$1,730.24	$92.57	5.65%
Total Disbursements	**$2,617.34**	**$2,734.45**	**$117.09**	**4.47%**
Ending Balance	**$74.72**	**$60.22**	**($14.50)**	**-19.41%**
Less:				
Managed Reserve	$52.35	$54.69	$2.34	4.47%
PSOC/EOC Construction Funding at Third Quarter [4]	$18.65		($18.65)	-
Third Quarter Requirements - Related to Hurricane Isabel, Premium Stabilization, Other [5]	$3.72		($3.72)	-
Reserve for changing economic conditions [6]		$5.53	$5.53	-
Total Available	**$0.00**	**$0.00**	**$0.00**	-

[1] The FY 2004 Revised Beginning Balance reflects audit adjustments for revenue and expenditures as included in the *FY 2003 Comprehensive Annual Financial Report* (CAFR). As a result, the FY 2004 Revised beginning balance reflects a net reduction in available balance of $86,350, based on an increase of $1,002,084 for expenditure requirements offset by an increase in revenues of $915,734.

[2] *FY 2004 Revised Budget Plan* revenues reflect an increase of $12,457,681 based on revised revenue estimates of November 2003. The *FY 2004 Third Quarter Review* will contain a detailed explanation of these changes.

[3] In accordance with the Board adopted guidelines for the FY 2005 Budget, the proposed County General Fund transfer for school operations in FY 2005 totals $1,322,374,187, an increase of $81,523,866 or 6.57% over the *FY 2004 Revised Budget Plan* transfer. It should be noted that the actual transfer request approved by the School Board on February 12, 2004 is $1,361,212,802, an increase of $120,362,481 or 9.7% over the FY 2004 transfer level. In order to fully fund this $38,838,615 increase over the Budget Guidelines, additional resources would need to be considered by the Board of Supervisors.

[4]*The FY 2004 Revised Budget Plan* ending balance reflects reserve funding of $18.65 million which includes the $10 million set aside reserve identified at Carryover and $8.7 million in additional funding based on the FY 2004 revised revenue estimates. This amount is held in reserve for anticipated F*Y 2004 Third Quarter Review* disbursement requirements related to the construction of the Public Safety Operations/Emergency Operations Center. Further details will be included as part of the *FY 2004 Third Quarter Review* package.

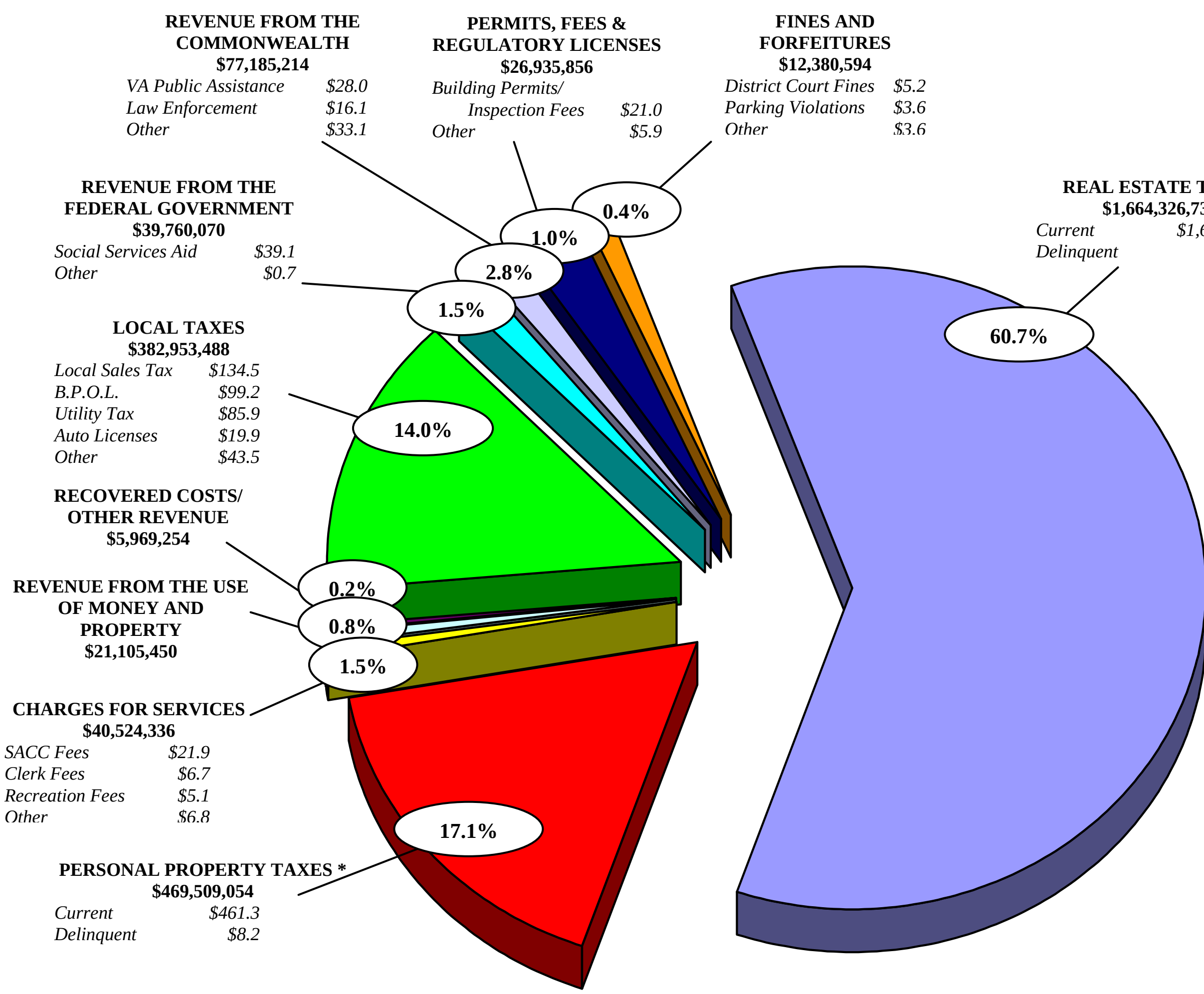
[5]The *FY 2004 Revised Budget Plan* ending balance reflects available funding of $3.72 million based on the available FY 2004 revised revenue estimate balance after PSOC/EOC requirements. This amount is held in reserve for anticipated *FY 2004 Third Quarter Review* disbursement requirements, including requirements related to Hurricane Isabel, anticipated premium stabilization requirements and other requirements. Further details will be included as part of the *FY 2004 Third Quarter Review* package.

[6] The FY 2005 Advertised Budget Plan ending balance reflects available funding of $5.53 million held in reserve to offset economic fluctuations and revenue adjustments.

FY 2005 BUDGET
GENERAL FUND REVENUES

FY 2005 revenues are projected to be $2,740,650,049, an increase of $168,882,135 or 6.57 percent over the *FY 2004 Revised Budget Plan*. This level of revenue growth in FY 2005 is due entirely to an 11.36 percent increase in Real Estate Tax revenue. All other categories reflect a net decrease of approximately $1.0 million from FY 2004. The FY 2005 real estate tax base is projected to grow 12.04 percent due to an increase in equalization of 9.54 percent and growth of 2.50 percent in new construction.

$2,740,650,049



* For presentation purposes, Personal Property Taxes of $205,950,438 that are reimbursed by the Commonwealth as a result of the Personal Property Tax Relief Act of 1998 are included in the Personal Property Taxes category.

FY 2005 BUDGET
GENERAL FUND DISBURSEMENTS

FY 2005 disbursements total $2,734,445,214, an increase of $117,104,974 or 4.47 percent over the *FY 2004 Revised Budget Plan* amount of $2,617,340,240. Of this increase, $87,155,186 or 74.4 percent is attributable to the County's transfer to the School Operating Fund and School Debt Service. The recommended transfer to the School Operating Fund is $1,322,374,187, which is an increase of $81,523,866 or 6.57 percent over FY 2004 and is in conformance with the Budget Guidelines approved by the Board of Supervisors. In addition, the County's contribution to School Debt Service for FY 2005 is $126,528,053, reflecting an increase of $5,631,320 or 4.66 percent over the FY 2004 level.

The actual transfer request approved by the School Board on February 12, 2004 is $1,361,212,802 and reflects an increase of $120,362,481 or 9.7 percent over the FY 2005 transfer level. In order to fully fund this $38,838,615 increase over the Budget Guidelines, the Board of Supervisors would have to identify additional resources.

Recommended General Fund Direct Expenditures total $1,004,209,088 and reflect an increase of $24,537,545 or 2.50 percent over the *FY 2004 Revised Budget Plan*. A summary of the major recommendations included in the FY 2005 Advertised Budget Plan is presented on the following pages. Details concerning each of these items can be found in the various budget volumes.

$2,734,445,214